G. Tamblyn
Limited

Annual
Report
1974

Tamblyn

Tamblyn is an Ontario-based retailing chain with over 100 full line drugmarts. In addition to its retail operations, Tamblyn services a select number of wholesale drug accounts from its central distribution facility.

G. Tamblyn, Limited
Annual Meeting April 30 at 10:00 a.m.
Royal York Hotel, York Room
Front Street
Toronto, Ontario

Report to Shareholders:

Sales for the fiscal year 1974 were $73,673,532, a record year which showed increases of 25 percent in comparable stores. Despite the healthy sales trends, operating losses for 1974 were $2,948,406.

The disappointing results for 1974 are primarily due to deterioration in three critical operating ratios over the past few years.

- Gross margin deterioration due to low sales penetration of our basic prescription and related health care business and lack of control over non-pharmacy sales mix.
- Excessive store operating expenses due to a number of non-productive stores with high occupancy costs and lack of an effective man-hours scheduling system.
- Excessive operating expenses for warehousing, transportation, office administration, and interest costs to finance inventories.

In July, 1974, I was elected chief executive officer, with the charter to initiate the short and long-term actions necessary to deal with these fundamental operating weaknesses and build a firm foundation that would enable Tamblyn's to realize its significant profit potential.

A development program is now firmly in place to gain control over basic retail operating disciplines and to position the company for future growth. This program entails changes in four major segments of our business: personnel, marketing, support services, and asset reconfiguration.

Personnel Changes

I assigned the highest priority to building an experienced and motivated management team. Executives were promoted from within the organization to head pharmacy, merchandising, and personnel functions. At the same time, executives were recruited from outside the company to head up the following departments: store operations, finance and control, distribution, data processing, real estate, and security.

Marketing Changes

Drug retailing is an important, growing market, that will total well over a billion dollars nationwide this year. The prescription segment of this market has exceptional growth potential. Medical research continues to find new drugs and new applications for existing drugs. Government and private health programs help the public to identify health needs and to afford the drugs. Tamblyn marketing is being changed to participate profitably in the health and personal care market through a consistent image, modernized stores, and more effective merchandising.

- Tamblyn's pharmacy image is being considerably upgraded. Consumer services and very competitive pricing are being introduced. More efficient dispensaries are being installed in most stores. A group of pharmacy specialists under a senior pharmacy executive has been established to develop the business.
- A new Tamblyn corporate identity program is being initiated. Store decor, layout, and advertising are being standardized, using a modern

logo and colour theme. All stores will operate under the Tamblyn name.

- New controls are being established over non-pharmacy operations. Plan-o-grams are being used to prepare merchandise layouts and control both gross margin mix and inventory in each store. Store labour productivity improvement is being achieved through a new man-hours scheduling system.
- Tamblyn's retail network is being tailored to the demands of the market. Thirteen stores are being closed; five more will be reduced to a size appropriate for economical operation. At the same time, five stores will be expanded to take advantage of the market. A number of new stores will be opened as the progress of our business warrants.

Support Service Changes

The restructuring of Tamblyn includes plans for upgrading the quality of central support services while reducing their cost. Three main programs are planned for completion this year.

- Relocation to a modern distribution facility will double our shipping productivity. The warehouse, located in Bramalea, Ontario, has sufficient space to accommodate our business for the foreseeable future.
- Installation of a new data processing system will increase the availability of information essential to running the business. At the same time, our administrative costs will be reduced.
- Relocation of the headquarters office facilities in Toronto provides the business with a more efficient office layout, sized more appropriately to the needs of the business.

Asset Reconfiguration

At present a major profit opportunity lies in the remodelling, refurbishment, and expansion of our 100-store sales base. The majority of these stores are in excellent locations in the major market areas of Ontario.

Several actions were taken in 1974 to provide the funds necessary to capture this opportunity.

- Our 31 stores in Western Canada were sold. The sale of these stores provided us with refurbishment capital and consolidated our retail store base to a more manageable configuration.
- Plans were made for relocation of our central headquarters and warehousing facilities, enabling us to sell our previous location. This action provided an additional $4,367,151 in development funds.

Summary and Outlook

Last year was a difficult year for Tamblyn, and the operating loss incurred is a disappointment to you and to your new management team. The changes outlined are directed at correcting the losses as quickly as possible. Actions taken in the last half of 1974 have already reduced our operating expenses by almost $2,000,000 annually. More time-consuming programs are underway to build our pharmacy sales, develop our image, and control our sales mix.

Most significantly, however, a nucleus of talented people, many with years of experience with Tamblyn, and with great pride in their work, are responding to our challenges with a commitment to results. This is essential. I feel confident that the most difficult of Tamblyn's problems are now behind us.

William P. Altman
Executive Vice-President and
Chief Executive Officer

Consolidated Balance Sheet

Assets	December 28, 1974	December 29, 1973
Current assets		
Cash	$ 3,440,372	
Accounts receivable	1,626,248	$ 1,038,285
Receivable from affiliated companies (note 1(a))	2,110,317	558,455
Income taxes recoverable	35,208	315,867
Inventories	16,201,528	15,996,456
Properties for resale, at cost less accumulated depreciation		1,401,336
Prepaid expenses	180,510	227,055
	23,594,183	19,537,454
Licence fees, at cost less amortization	89,500	114,500
Fixed assets (note 3)	5,381,520	6,122,751
	$29,065,203	$25,774,705

Approved by the Board

W. Galen Weston, Director

George C. Metcalf, Director

Liabilities	December 28, 1974	December 29, 1973
Current liabilities		
Bank advances		$10,896,150
Advances from affiliated companies	**$ 9,640,000**	
Accounts payable and accrued liabilities	**10,626,470**	7,086,783
Dividends payable	**61,649**	
Income and other taxes payable	**559,728**	436,657
Long-term debt due within one year	**133,000**	78,000
	21,020,847	18,497,590
Advance from affiliated company, not payable within one year		575,000
Long-term debt (note 4)	**510,000**	645,000
Deferred real estate income	**305,091**	

Shareholders' Equity		
Capital stock		
Authorized		
15,000 4% Cumulative voting preferred shares, par value $50, redeemable at $51.50 per share		
400,000 Common shares without par value		
Issued		
10,000 Preferred shares	**500,000**	500,000
283,244 Common shares	**1,064,190**	1,064,190
	1,564,190	1,564,190
Retained earnings	**5,665,075**	4,492,925
	7,229,265	6,057,115
	$29,065,203	$25,774,705

Long-term leases (note 6)

Consolidated Statement of Income

	52 weeks ended December 28, **1974**	39 weeks ended December 29, 1973
Sales	**$73,673,532**	$49,119,745
Operating loss before undernoted items (note 5)	**$ 2,018,913**	$ 1,067,754
Depreciation and amortization of fixed assets	**870,401**	656,223
Interest on long-term debt	**34,092**	28,422
Amortization of licence fees	**25,000**	10,500
	929,493	695,145
Loss before income taxes and extraordinary items	**2,948,406**	1,762,899
Income tax reduction		364,200
Loss before extraordinary items	**2,948,406**	1,398,699
Extraordinary items		
Gain on sale of building (note 2)	**4,367,151**	
Gain and proceeds on cancellation of licences in K-Mart department stores		1,175,000
Loss on disposal of fixed assets less deferred income tax reduction of $180,000		(182,452)
	4,367,151	992,548
Net income (loss) for the period	**$ 1,418,745**	$ (406,151)
Net income (loss) per common share		
Before extraordinary items	**$(10.48)**	$(4.99)
Net income (loss) for the period	**$4.94**	$(1.49)

Consolidated Statement of Retained Earnings

	52 weeks ended December 28, **1974**	39 weeks ended December 29, 1973
Balance at beginning of period	**$ 4,492,925**	$ 5,084,023
Net income (loss) for the period	**1,418,745**	(406,151)
	5,911,670	4,677,872
Dividends on		
Preferred shares	**20,000**	15,000
Common shares ($.80 per share; 1973 — $.60 per share)	**226,595**	169,947
	246,595	184,947
Balance at end of period	**$ 5,665,075**	$ 4,492,925

Consolidated Statement of Changes in Financial Position

	52 weeks ended December 28, **1974**	39 weeks ended December 29, 1973
Working capital derived from		
Proceeds from sale of common and preference shares of certain subsidiaries less their working capital of $177,360	**$1,795,424**	
Proceeds of disposal of fixed assets	**4,772,006**	$ 60,113
Proceeds from cancellation of licences in K-Mart department stores		1,175,000
Properties for resale		1,401,336
Advance from affiliated company		575,000
	6,567,430	3,211,449
Working capital applied to		
Loss before extraordinary items	**2,948,406**	1,398,699
Less items not involving working capital		
Depreciation and amortization of fixed assets	**870,401**	656,223
Amortization of deferred real estate income	**(7,699)**	
Deferred income tax reduction		(364,200)
Gain on sale of shares of certain subsidiary companies (note 5)	**(790,000)**	
Amortization of licence fees	**25,000**	10,500
	97,702	302,523
Funds applied to operations	**2,850,704**	1,096,176
Additions to fixed assets	**1,226,659**	1,954,904
Reduction in non-current portion of long-term debt	**135,000**	
Dividends	**246,595**	184,947
Purchase of licences		125,000
Repayment of advance from affiliated company	**575,000**	
	5,033,958	3,361,027
Increase (decrease) in working capital	**1,533,472**	(149,578)
Working capital at beginning of period	**1,039,864**	1,189,442
Working capital at end of period	**$2,573,336**	$1,039,864

Notes to Consolidated Financial Statements

December 28, 1974

1. Summary of Significant Accounting Policies

(a) Basis of Consolidation

The consolidated financial statements for 1974 include the accounts of the company and all subsidiaries. All subsidiary companies are wholly owned.

Effective December 28, 1974 the company sold the common and preference shares of five subsidiary companies to an affiliated company for $1,972,784 of which $1,723,000 is included in receivable from affiliated companies. The subsidiary companies sold operated all retail stores west of the Ontario border. The consolidated financial statements include the results of these companies for the year and the gain of $790,000 resulting from the sale.

(b) Inventories

Inventories consist of products held for resale in the retail stores. Inventories are valued on the basis of approximate costs which is not in excess of net realizable value.

(c) Licence Fees

In a prior year the company acquired licences to operate drug departments in six retail stores. The cost of these licences is being amortized on a straight-line basis to the date of their expiry in 1978.

(d) Fixed Assets

Depreciation is recorded on a straight-line basis to amortize the cost of fixed assets over their estimated useful lives. The depreciation rates are substantially as follows:

Buildings	2½%
Furniture and fixtures	10%
Automobiles	25%
Leasehold improvements	Term of the lease plus 1st option

When fixed assets are sold or scraped, the cost of the asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss on disposal is included in income.

(e) Deferred Real Estate Income

The profit realized on the sale and leaseback of property has been deferred and is being amortized over twenty-five years, being the terms of the lease.

2. Gain on Sale of Building

During the year the company entered into an agreement to sell certain of its land and buildings (principally the head office and warehouse location) to an affiliated company for $5,660,000. As the company has entered into negotiations to move their head office and warehouse locations to a new locale the profit earned on this sale has been taken into income in the year (note 6).

3. Fixed Assets, at cost

	December 28, **1974**	December 29, 1973
Land	**$ 11,000**	$ 36,600
Buildings	**79,558**	112,998
Equipment and fixtures	**6,594,875**	7,978,580
Leasehold improvements	**2,678,275**	2,837,273
	9,363,708	10,965,451
Accumulated depreciation	**3,982,188**	4,842,700
	$5,381,520	$6,122,751

4. Long-Term Debt

	December 28, **1974**	December 29, 1973
Sinking fund debentures		
Series A — 4%, maturing April 1, 1975, requiring annual sinking fund payments of $50,000	**$ 50,000**	$ 75,000
Series B — 5¼%, maturing April 1, 1978, requiring annual sinking fund payments of $65,000	**258,000**	313,000
Series C — 5½%, maturing April 1, 1982, requiring annual sinking fund payments of $45,000	**335,000**	335,000
	643,000	723,000
Less payments due within one year	**133,000**	78,000
	$ 510,000	$ 645,000

Sinking fund requirements are being met by the purchase and cancellation of sinking fund debentures. As at December 28, 1974 debentures purchased in excess of the requirement for December 28, 1974 amounted to $27,000. This excess has been applied to reduce the required payments due within one year.

The trust indenture under which the sinking fund debentures were issued stipulates that the company may not pay dividends if, after their payment, working capital is less than $1,000,000. At December 28, 1974, working capital was $2,573,336.

5. Store Discontinuance Costs and Revenues

During the year the company reorganized their operations in order to operate economically viable retail locations in Ontario only. Accordingly included in the statement of income for the 52 weeks ended December 28, 1974 are the following:

Provision for loss on planned store closings in Ontario	$829,584
Deduct	
Gain on sale of stores west of Ontario included in the sale of shares of certain subsidiary companies (note 1(a))	790,000
	$ 39,584

6. Long-Term Leases

The aggregate amounts of rentals incurred by the companies as an expense during their most recent fiscal period was $4,341,300. Real estate leases in effect at December 28, 1974 which extend for periods longer than five years from that date have aggregate minimum rentals exclusive of taxes, insurance and other occupancy charges as follows:

Years ending	
1975 - 1979	$11,644,000
1980 - 1984	8,425,000
1985 - 1989	4,617,000
1990 - 1994	1,837,000
After 1994	342,000
	$26,865,000

It is the company's intention to enter into long-term leases as a result of the sale of the property set out in note 2 at estimated annual rentals of $230,000, the costs of which are not included in the above long-term lease commitments.

7. Other Information

	52 weeks ended December 28, **1974**	39 weeks ended December 29, 1973
Canada Corporations Act		
Number of directors (including four retired during the year 1974; five retired during 1973)	**13**	14
Remuneration of directors as directors	**$ 5,000**	Nil
Number of officers (including six retired during the year 1974; three retired during 1973)	**14**	10
Remuneration of officers as officers	**$212,964**	$151,562
Number of officers who are directors (including two retired during the year 1974; two retired during 1973)	**3**	3
Other Securities Act		
Remuneration of directors and senior officers	**$241,064**	$168,952

8. Income Taxes

The company has the following amounts available to be claimed against taxable income in future years, the tax effect of which has not been reflected in the accounts.

Tax loss carry forward expiring	
1977	$ 101,000
1978	1,250,000
1979	2,149,000
	3,500,000
Expenses recorded for book purposes not yet claimed for tax purposes	830,000
	4,330,000
Less excess of net book value of depreciable fixed assets over undepreciated capital cost	747,900
	$3,582,100

Auditors' Report

To the Shareholders of
G. Tamblyn, Limited

We have examined the consolidated balance sheet of G. Tamblyn, Limited as at December 28, 1974 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 28, 1974 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding period.

Our report on the consolidated statements of income, retained earnings and changes in financial position for the period ended December 29, 1973 was qualified with respect to the possible effect of certain expenditures. These expenditures relating primarily to inventory and cost of sales during the early part of that period were not capable of complete substantiation. The situation was rectified prior to December 29, 1973 and we were able to give an unqualified opinion as to the consolidated balance sheet as at that date.

Thorne Gunn & Co.

Chartered Accountants

Toronto, Canada
February 12, 1975

Directors

W. Galen Weston
George C. Metcalf
Richard J. Currie
David A. Nichol
Archibald H. Hutchison
Wilfred A. Murray
John A. Davies
John A. Stout
Mrs. Carolyn R. Zimmerman

Officers

George C. Metcalf
Chairman of the Board

W. Galen Weston
President

William P. Altman
Executive Vice-President and Chief Executive Officer

Roger A. Lindsay
Secretary

John A. Stout
Vice-President — Pharmacy Operations

Leo P. Sell
Vice-President — Retail Operations

James H. Farrell
Vice-President — Real Estate Operations

Sheldon Douglass
Vice-President

Frederick P. Ambrose
Controller

Stock Transfer Agent and Registrar

Canada Permanent Trust
Company, Toronto

Auditors

Thorne Riddell & Co.

Head Office

84 Sheppard Avenue East,
Willowdale, Ontario

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Printed in Canada

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G. TAMBLYN, LIMITED

INTERIM REPORT
TO SHAREHOLDERS

24 Weeks Ended June 15, 1974

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CONSOLIDATED FIN

24 WEEKS END

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INCOME

	24 Weeks Ended June 15, 1974	12 Weeks Ended June 15, 1974	12 Weeks Ended June 23, 1973
SALES:			
Retail	$29,281	$14,994	$14,456
Wholesale	1,987	1,183	
	31,268	16,177	14,456
COSTS AND EXPENSES:			
Cost of sales, selling and administrative expenses (before the following)	31,508	16,993	14,092
Depreciation and amortization of fixed assets	376	190	174
Interest on long-term debt	16	8	10
Other interest	479	220	178
	32,379	17,411	14,454
LOSS (INCOME) FROM OPERATIONS before income taxes and extraordinary items	1,111	1,234	(2)
INCOME TAXES (REDUCTIONS)		(62)	1
LOSS (INCOME) FROM OPERATIONS BEFORE EXTRAORDINARY ITEMS	1,111	1,172	(1)
EXTRAORDINARY ITEMS	19	(57)	
NET LOSS (INCOME) FOR THE PERIOD	$ 1,092	$ 1,229	$ (1)
PER COMMON SHARE:			
Loss from operations before extraordinary items	$ 3.94	$ 4.14	$ .01
Net loss	$ 3.87	$ 4.34	$ .01

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CIAL STATEMENTS

UNE 15, 1974

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dollars)

CHANGES IN FINANCIAL POSITION

	24 Weeks Ended June 15, 1974	12 Weeks Ended June 15, 1974	12 Weeks Ended June 23, 1973
SOURCE OF WORKING CAPITAL			
Increase in deferred real estate income	$4,790	$4,790	
Disposal of fixed assets	30	30	
	4,820	4,820	
APPLICATION OF WORKING CAPITAL			
Operations—			
Net loss (income)	1,092	1,229	$ (1)
Depreciation and amortization of fixed assets	(376)	(190)	(174)
	716	1,039	(175)
Additions to fixed assets	104	91	404
Dividends	62		62
Reduction in long-term debt	137	135	
Sundry items	22	16	
	1,041	1,281	291
INCREASE (DECREASE) IN WORKING CAPITAL	3,779	3,539	(291)
WORKING CAPITAL—beginning of period	1,049	1,289	1,182
WORKING CAPITAL—end of period	$4,828	$4,828	$ 891

TO OUR SHAREHOLDERS:

Sales for the first half of 1974 are equal to those of the prior year even though we are operating 27 fewer stores than a year ago. In the second quarter sales were $16.2 million compared to $14.5 million a year ago, a 12 percent increase. Sales of comparable units are 25 percent above a year ago.

Net loss for the half-year was $1,092,000 and for the second quarter $1,229,000. Earnings were significantly depressed because of declines in gross margins and higher wage costs. Working capital has been significantly improved from $900,000 a year ago to $4.8 million at the end of the second quarter.

A change in the operating management of Tamblyn's was made near mid-year and this new management team is in the process of implementing a program to correct the disappointing operating results experienced in the first half.

The problem of low gross margins is being vigorously attacked; effective gross margin control programs will be in place by year-end. Wage costs are being lowered through a store labour scheduling system. The new management team has also identified that distribution and administrative costs are excessive and a cost reduction program is underway. We expect to have all controllable cost factors at substantially lower levels by year-end.

Toronto, Canada
August 14, 1974

W. GALEN WESTON
President & Chief Executive Officer

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G. TAMBLYN, LIMITED

INTERIM REPORT TO SHAREHOLDERS

24 Weeks Ended June 14, 1975

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G. TAMBLYN, LIMITED

TO THE SHAREHOLDERS:

Sales in comparable ongoing stores for the 24 weeks ended June 14, 1975 are approximately 15% higher than in the first half of 1974. Included in the 1974 sales shown in this report are those for 31 Western Canada stores which were sold at the end of 1974.

Net loss for the half-year was $576,000 compared to $1,092,000 for 1974. The second quarter loss was $296,000 compared to $1,229,000 a year ago. While your company is still operating at a loss, substantial inroads are being made towards return to profitability in 1975.

Actions completed in the first half-year include relocation into new office facilities and a new distribution center. Twenty stores were re-merchandised and fitted with our new decor package. Sales results are encouraging in these stores.

Our focus continues on effective administration of our new operating controls, upgrading our facilities and aggressive merchandising programs to increase sales in profitable categories. We remain confident of a return to profitability by year-end.

Toronto, Canada
July 30, 1975

WILLIAM P. ALTMAN
President

CONSOLIDATED FINANCIAL STATEMENTS

24 WEEKS ENDED JUNE 14, 1975

(Unaudited)
(in thousands of dollars)

INCOME

	1975	1974
SALES		
Retail	$25,756	$29,281
Wholesale	1,272	1,987
	27,028	31,268
COSTS AND EXPENSES		
Cost of sales, selling and administrative expenses before the following	26,923	31,508
Depreciation	327	376
Interest on long-term debt	12	16
Other interest	342	479
	27,604	32,379
LOSS FROM OPERATIONS BEFORE EXTRAORDINARY ITEMS	576	1,111
EXTRAORDINARY ITEMS		19
NET LOSS FOR THE PERIOD	$ 576	$ 1,092
PER COMMON SHARE		
Loss from operations before extraordinary items	$ 2.07	$ 3.94
Net loss	$ 2.07	$ 3.87

CHANGES IN FINANCIAL POSITION

	1975	1974
WORKING CAPITAL DERIVED FROM		
Advance from affiliated company	$2,000	
Increase in deferred real estate income		$4,790
	2,000	4,790
WORKING CAPITAL APPLIED TO		
Operations—		
Net loss	576	1,092
Depreciation	(327)	(376)
	249	716
Net additions to fixed assets	954	74
Dividends	62	62
Reduction in long-term debt	199	137
Sundry items	211	22
	1,675	1,011
INCREASE IN WORKING CAPITAL	325	3,779
WORKING CAPITAL at beginning of period	2,573	1,049
WORKING CAPITAL at end of period	$2,898	$4,828